

# **ORANGE COUNTY FLOOD CONTROL DISTRICT**

Audit Report

## **FLOOD CONTROL SUBVENTIONS PROGRAM**

Santa Ana River Mainstem Flood Control Project

*May 1, 1989, through December 31, 2009*



**JOHN CHIANG**  
California State Controller

August 2013



**JOHN CHIANG**  
**California State Controller**

August 22, 2013

Mark Cowin, Director  
Department of Water Resources  
1416 Ninth Street, Room 1115-1  
Sacramento, CA 95814

Dear Mr. Cowin:

The State Controller's Office audited claims submitted by the Orange County Flood Control District under the Flood Control Subventions Program.

The district claimed costs of \$126,573,465 for the Santa Ana River Mainstem Flood Control project for the period of May 1, 1989, through December 31, 2009. Our audit found that \$125,898,162 is allowable and \$675,303 is unallowable.

The unallowable costs of \$675,303 included \$161,703 in ineligible betterment costs, \$96,034 in labor costs incurred outside of the scope of the project, \$412,524 for services and supplies related to the normal operation of the district, and \$5,042 for professional services outside the scope of the project.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/sk

cc: Lance Natsuhara, P.E., Manager  
Santa Ana River Mainstem Project  
Orange County Flood Control District  
Howard Thomas, Manager  
Accounting Services  
Orange County Public Works

Nahideh Madankar, P.E., Chief  
Flood Control Subventions Program  
Division of Flood Management  
Department of Water Resources  
Steven Mar, Bureau Chief  
Division of Audits, State Controller's Office  
Mike Spalj, Audit Manager  
Division of Audits, State Controller's Office  
Roger Leung, Auditor-in-Charge  
Division of Audits, State Controller's Office

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>1</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Views of Responsible Officials.....</b>	<b>2</b>
<b>Restricted Use .....</b>	<b>2</b>
<b>Schedule 1—Summary of Project Costs .....</b>	<b>3</b>
<b>Finding and Recommendation .....</b>	<b>5</b>
<b>Attachment—District’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office (SCO) audited the reimbursement claims of the Orange County Flood Control District under the Flood Control Subventions Program. Our audit included the Santa Ana River Mainstem Flood Control Project, for the period of May 1, 1989, through December 31, 2009.

The district claimed total costs of \$126,573,465 incurred from May 1, 1989, through December 31, 2009 for the Santa Ana River Mainstem Flood Control Project. Our audit found that \$125,898,162 is allowable and \$675,303 is unallowable. The unallowable costs included \$161,703 in ineligible betterment costs, \$96,034 in labor costs incurred outside of the scope of the project, \$412,524 for services and supplies related to the normal operation of the district, and \$5,042 for professional services outside of the scope of the project.

The unallowable costs of \$675,303 specifically were identified as ineligible and disallowed by the California Department of Water Resources (DWR).

## Background

The State of California provides financial assistance to local agencies participating in the construction of federal flood control projects. Under the Flood Control Subventions Program (State Water Code, Division 6, Part 6, Chapters 1 through 4), DWR pays a portion of the local agency's share of flood control project costs, including the costs of rights of way, relocation, and recreation and fish and wildlife enhancements.

State Water Code section 12832 authorizes the State Controller to audit the books and records of local agencies to determine whether the state funds received were expended for the purposes and under the conditions authorized.

## Objective, Scope, and Methodology

Our audit objective was to determine whether the costs claimed as presented in the Summary of Project Costs (Schedule 1) are allowable and in compliance with DWR's Guidelines for State Reimbursement on Flood Control Projects.

We conducted this performance audit under the general authority of Government Code section 12410 and the specific authority under State Water Code section 12832. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The sampling method we used to test transactions was haphazard sampling. The areas examined included:

- Claim preparation process
- Land acquisition costs
- Relocation costs
- Other allocable costs
- Revenue recognition

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit found an instance of noncompliance with the requirements outlined above. This instance is shown on the Summary of Project Costs (Schedule 1) and described in the Finding and Recommendation section. The district claimed total costs of \$126,573,465 incurred from May 1, 1989, through December 31, 2009 for the Santa Ana River Mainstem Flood Control Project. Our audit found that \$125,898,162 is allowable and \$675,303 is unallowable. The unallowable costs included \$161,703 in ineligible betterment costs, \$96,034 in labor costs incurred outside of the scope of the project, \$412,524 for services and supplies related to the normal operation of the district, and \$5,042 for professional services outside of the scope of the project.

The unallowable costs of \$675,303 specifically were identified as ineligible and disallowed by DWR.

## **Views of Responsible Officials**

We conducted an exit conference on January 17, 2013, and discussed the audit results with Lance Natsuhara, Manager, Santa Ana River Mainstem Project; Howard Thomas, Manager, Accounting Services; and James J. Tyler, Real Estate/Finance and Engineering Manager. We issued a draft audit report on May 28, 2013. Mr. Natsuhara responded by letter, dated June 17, 2013, agreeing with the audit results. The district's response is included as an attachment to this audit report.

## **Restricted Use**

This report is solely for the information and use of the Orange County Flood Control District, DWR, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

August 22, 2013

**Schedule 1—  
Summary of Project Costs  
May 1, 1989, through December 31, 2009**

Project/ Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments <sup>1</sup>	State Share of Eligibility Percentage <sup>2</sup>	State Share of Allowable Costs <sup>2</sup>
SAMO 2000-1RR / 8, 11, 12, 14-16, 18A	\$ 747,553	\$ 560,442	\$ 187,111	70%	\$ 392,309
SAMO 2006-05 / 53A&B	990,633	984,395	6,238	70%	689,076
SAMO 2006-06 / 54A&B	5,789,689	5,400,287	389,402	70%	3,780,201
SAMO 2006-07 / 55A&B	699,485	684,048	15,437	70%	478,833
SAMO 2007-02 / 57A&B	619,234	614,523	4,711	70%	430,166
SAMO 2007-03 / 58A&B	2,190,247	2,184,014	6,233	70%	1,528,810
SAMO 2007-04 / 59A&B	8,952,916	8,942,919	9,997	70%	6,260,043
SAMO 2007-05 / 60A&B	1,652,336	1,628,755	23,581	70%	1,140,129
SAMO 2007-06 / 61A&B	2,770,172	2,759,160	11,012	70%	1,931,412
SAMO 2007-08 / 62A&B	1,455,408	1,449,745	5,663	70%	1,014,822
SAMO 2009-01 / 63A&B	5,304,399	5,293,541	10,858	70%	3,705,479
SAMO 2009-02 / 64A&B	1,112,036	1,106,976	5,060	70%	774,883
SAMO 2009-03 / 65A&B	7,706,127	7,706,127	—	70%	5,394,289
SAMO 2009-04 / 66B	618,611	618,611	—	70%	433,028
SAMO 2009-05 / 67A&B	1,446,240	1,446,240	—	70%	1,012,368
SAMO 2010-01 / 68A&B	1,502,343	1,502,343	—	70%	1,051,640
SAMO 2010-02 / 69A&B	2,497,465	2,497,465	—	70%	1,748,225
SAMO 2010-04 / 70A&B	6,858,014	6,858,014	—	70%	4,800,610
SAMO 2007-09 / 71B	2,722,087	2,722,087	—	70%	1,905,461
SAMO 2011-04 / 72A&B	(669,418)	(669,418)	—	70%	(468,593)
SAMO 2011-03 / 73A&B	5,446,866	5,446,866	—	70%	3,812,806
SAMO 2011-04 / 74A&B	2,392,957	2,392,957	—	70%	1,675,070

## Schedule 1 (continued)

Project/ Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments <sup>1</sup>	State Share of Eligibility Percentage <sup>2</sup>	State Share of Allowable Costs <sup>2</sup>
SAMO 2011-01 / 79A&B	\$ 12,432,604	\$ 12,432,604	\$ —	70%	\$ 8,702,823
SAMO 2010-03 / 83A	20,251,440	20,251,440	—	70%	14,176,008
SAMO 2010-05 / 84A	31,084,021	31,084,021	—	70%	21,758,815
Totals	<u>\$ 126,573,465</u>	<u>\$ 125,898,162</u>	<u>\$ 675,303</u>		<u>\$ 88,128,713</u>

<sup>1</sup> See the Finding and Recommendation section.

<sup>2</sup> The state share of allowable project costs represents the percentage of state funding, as stipulated in the California Water Code, for each project cost category.



# Finding and Recommendation

**FINDING—  
California  
Department of  
Water Resources  
adjustments**

The district's claims included \$675,303 in costs that specifically were identified as ineligible and disallowed by DWR. We concur with DWR's determinations.

The DWR's Guidelines for State Reimbursement on Flood Control Projects (February 1974), Section VI, Part D, specifies that DWR will reduce a local agency's reimbursement claims for any item that is determined to be ineligible.

As a result, costs totaling \$675,303 for the Santa Ana River Mainstem Project are unallowable.

## Recommendation

The district should reduce its claims for reimbursements by \$675,303. In the future, the district should ensure that costs claimed are eligible for reimbursement under DWR guidelines.

## District's Response

The district agrees with the finding and has implemented corrective action.

**Attachment—  
District's Response to  
Draft Audit Report**

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Ignacio G. Ochoa, P.E., Interim Director  
300 N. Flower Street  
Santa Ana, CA 92703

P.O. Box 4048  
Santa Ana, CA 92702-4048  
Telephone: (714) 667-8800  
Fax: (714) 967-0896

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June 17, 2013

Steven Mar  
Chief, Local Government Audits Bureau  
State Controller's Office  
Division of Audits  
PO Box 942850  
Sacramento, CA 94250-5874

Mr. Mar,

This letter is in response to the County of Orange Santa Ana River Mainstem Flood Control Project Audit draft report received on June 3, 2013. The audit report contained one finding and one recommendation. The County's response to the recommendation is attached.

We appreciate your department's willingness to work with us throughout the audit. If you have any questions regarding this response, please contact Howard Thomas, OCPW Accounting Manager, at (714) 667-9745 or via email at [Howard.Thomas@ocpw.ocgov.com](mailto:Howard.Thomas@ocpw.ocgov.com).

Sincerely,

A handwritten signature in blue ink, appearing to read 'Lance Natsuhara', is positioned above the printed name.

Lance Natsuhara, P.E.  
Section Manager, Santa Ana River Mainstem Project  
OC Flood Division

Attachment

cc: Mr. Howard Thomas, Accounting Manager, OC Public Works, County of Orange  
Mr. Jim Christiansen, Watershed/Flood Accounting Manager, OC Public Works,  
County of Orange

**OC Flood Control District's Response to the State Controller's Office Audit  
Report: County of Orange Santa Ana River Mainstem Flood Control Project**

**Finding 1 – California Department of Water Resources adjustments**

The district's claims included \$675,303 in costs that specifically were identified as ineligible and disallowed by DWR. We concur with DWR's determinations.

The DWR's Guidelines for State Reimbursement on Flood Control Projects (February 1974), Section VI, Part D, specifies that DWR will reduce a local agency's reimbursement claims for any item that is determined to be ineligible.

As a result, costs totaling \$675,303 for the Santa Ana River Mainstem Project are unallowable.

**Recommendation:**

The district should reduce its claims for reimbursement by \$675,303. In the future, the district should ensure that costs claimed are eligible for reimbursement under DWR guidelines.

**County's Response:**

The recommendation has been implemented. The Department of Water Resources removes all ineligible costs from its reimbursements to the district. As a result the district did not receive reimbursement for the costs identified above. The district will continue to review expenses for eligibility prior to submission. Currently an extensive review by Accounting and Santa Ana River Mainstem Project staff is performed prior to the submission of each claim.

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